‘…any attempt to impose governance system or structures that are overly prescriptive or specific is fraught with danger. By its very nature corporate governance is not something where “one size fits all”.’ (Owen Report, 2003)

Introduction

The first mention of the corporate governance issue can be found in the classical economic literature in the beginning of the XXth century, for instance in the work of Berle and Means (1932) who depicted and described the question in the US corporate sector with strict division of ownership and control over a corporation; nevertheless, more profound researches on the subject were carried out as recent as in the last three decades. The majority of corporate governance theories and the empirical evidence are grounded on the observations and assumptions which, to high extent, consider the developed markets with stable institutional framework. Still, even for the advanced economies the empirical and theoretical works are not complete. Regarding theoretical works some authors express doubts whether the principal-agent theory alone is sufficient to explain the complexity of governance aspects.[1] Moreover, the empirical evidence is available only for a very small sample of countries. In their survey of corporate governance Shleifer and Vishny (1997) concluded that the research of corporate governance has to be extended so as to incorporate the experience of other countries. In the past 10 years multiple studies have contributed to the development of the subject, however, for some countries it remains a relatively new research field. Economies in transition, especially the former Soviet Union countries, are among those which need a deeper survey from a theoretical and empirical point of view. Among these only Russia, due to its size and a geo-political position, can be distinguished among others by the highest number of researches on its diverse issues conducted so far, as opposed to other CIS countries where researches in the field of corporate governance are scarce and inconclusive.

Russia can be considered as a pioneer in many fields of corporate governance. For that reason one of the approaches in the present research is to analyse and evaluate Russia’s experience and compare it with that of Kazakhstan and Uzbekistan. This approach will allow to filter most appropriate practices among the transition economies, and thus learn form the

[1] See for example Daily, Dalton and Cannella (2003)

more successful experience of other countries. On the other hand, it will allow to answer the question whether corporate governance models are exportable among transition economies, or if each country has its own way of creating governance practices. Up till the present moment no comparative researches with similar combination of countries have been found.

The aspects of governance and transition are approached differently by different stands of the finance, economics, management, development and law literature. Most of the researches are conducted from the perspective of one single discipline, and therefore manage to reveal governance aspects separately, depending on the subject perspective. This research will be based on holistic approach pulling together many aspects of the corporate governance subject which were explored separately and study them from an interdisciplinary perspective. The following disciplines will be included: macro-economics, micro-economics, management, corporate finance and law. In order to obtain a possibly complete view over the issue a brief overview of socio-cultural, political and technology aspects will be provided, although it is not a priority in the proposed work. An interdisciplinary approach of this type is quite unique and hardly undertaken in existing literature.

The next aspect which grants relevance to the proposed dissertation is the attempt to distinguish between the transition-economy-friendly practices. The evolution of corporate governance is a complicated process. Both systematic and unsystematic factors influence the evolving of a particular governance model. Therefore, the import of governance practices and codes, without considerations of national peculiarities is unlikely to have a positive effect on development of corporate sector. Most transition economies, though, have adopted corporate laws, securities laws and codes of good governance based on the experience of advanced economies (e.g. Russia adopted initially Anglo-American laws and code), or sometimes even simply importing the normative base.[2] As a result, most of the regulations do not function either due to the lack of corresponding institutional framework or inappropriate regulative requirements. One of the tasks of the dissertation is to depict the regulations and practices which do not correspond to reality in transition environment, as well as to propose a supplementing option. In the concluding part of the work proposals for the improvement of governance models will be made.

The importance of corporate governance aspects has been acknowledged in all transition economies, which may be confirmed by the observation of an increasing attention paid to the issues connected with it. Corporate governance can be viewed from two perspectives: macroeconomic and microeconomic. From the macroeconomic point of view,

[2] See for example Crotty and Jabome (2004), Berglöf and von Thadden (1999)

improvement of corporate governance on a company level is positively correlated with the development of the whole economy. Roe (1994) states that:

> '*Society wins when governance works. Although shareholders profit first from good governance, their profits are not the "bottom line" for public policy here: poor management imposes costs on the firm's employees, its suppliers, its customers and its communities.*' (p.3)

Komulainen et al. (2003) supports this statement when he says: 'w*ithout strong governance at the firm level, economic development at the country level is likely to be held back'* (p.23). According to the microeconomic reasoning, improved corporate governance and investor protection lead to more secure environment and encouragement of capital flows and cheaper external financing (Shleifer and Vishny, 1997).

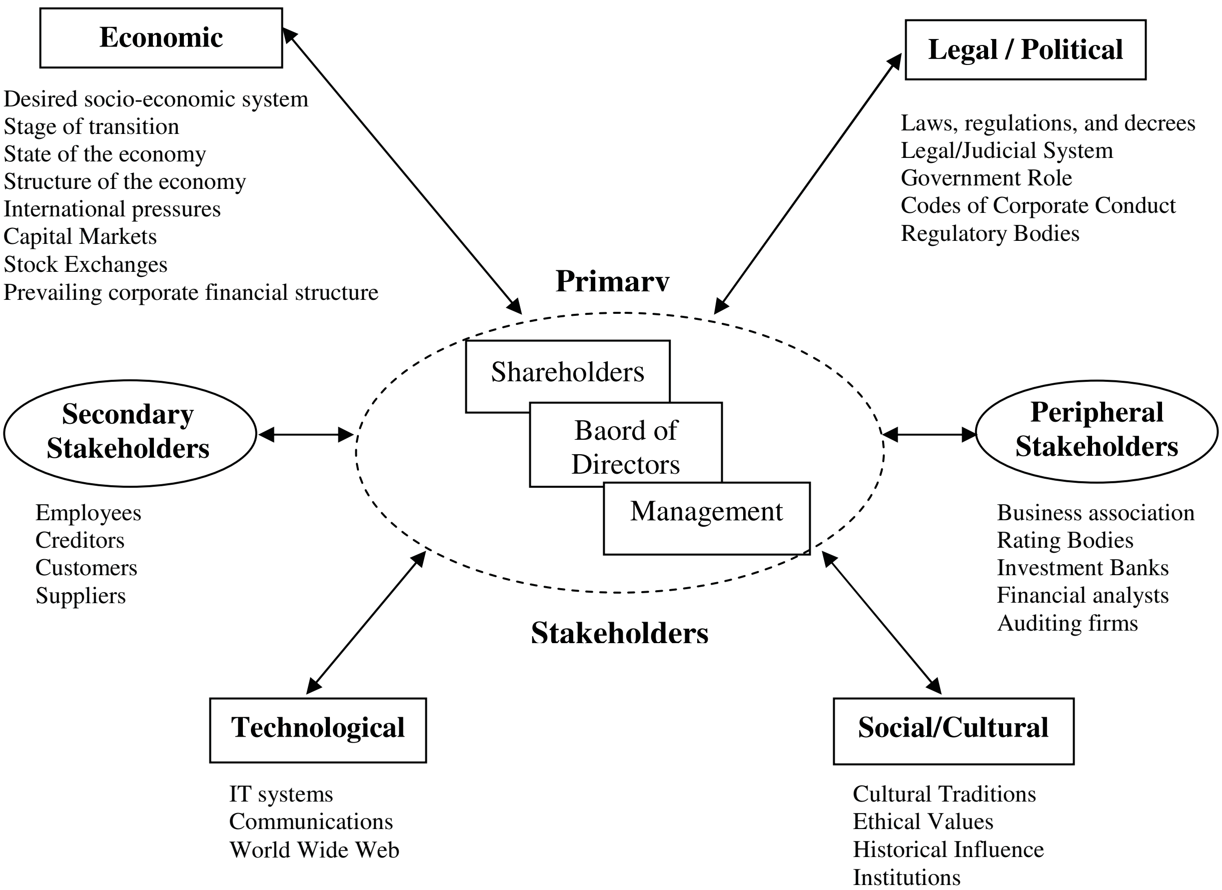
The presented general considerations over the importance of corporate governance were recognized by the policy makers in transition economies. However, selected ways to enhance governance in these countries requires reconsideration and more critical review (Stiglitz, 1999). The evidence of the corporate governance development in transition economies in the last few years has indicated that the approach chosen by some of the transitional countries was erroneous. The fallacy of the policy can be explained by the omitted contextual framework and governance practices in transition economies of each particular country. Most countries in transition implemented legislation and governance codes according to the US and European standards, instead of developing their own practices considering current and past economic development, socio-cultural and political idiosyncrasies. Therefore, due to the contextual difference between transition and advanced economies, it may be assumed that in transitional countries other governance mechanisms would be more appropriate than those copied from the countries with developed market mechanisms. For example, Berglöf and Pajuste (2003) indicate that a more contextualised approach to establish corporate governance codes in transition countries is required and not imported codes from the USA and Europe.

The aim of the proposed dissertation, based on the current state of corporate governance research, is to study the issues of corporate governance which are relevant within the context of transition economies exemplified by Russia, Kazakhstan and Uzbekistan. The main hypothesis of the presented theme is as follows: c*orporate governance models depend on multiple systematic and unsystematic changes which take place in each particular country. Therefore, transition economies have corporate governance context which differs from that in developed economies, and consequently different governance mechanisms should be implemented. Moreover, among transition economies themselves there are certain differences* *in governance models resulting due to the differences in the chosen reform processes*. The dissertation is intended to scrutinize the differences among governance mechanisms and models, which will further undergo a comparative analysis, in order to attempt at evaluation of the optional models for the chosen transition economies.

Methodological Approach

The proposed research will be based on the broader definition of corporate governance, whereas not only shareholder concentrated review will be undertaken, but also some other constituencies – employees, creditors, professional investors, auditors, rating bodies, etc. will be incorporated. Additionally, as mentioned by McCarthy and Puffer (2002), such environmental framework as economic, political, socio-cultural and technological one are of a huge importance while studying corporate governance models. Therefore, the dissertation will be organized as based on the scheme of corporate governance offered by McCarthy and Puffer (See Figure 1).

Figure 1. Corporate Governance Framework



Source: McCarthy and Puffer (2002), p.398.

The dissertation will be divided into four parts. After handling the theoretical framework of the research, the first part will introduce the economic environment in all three countries. Here, the accent will be put on macro-economical aspects such as economic development and finance. In the first stage of transformation, state of economic development, structure of the economies will be briefly surveyed. Then, the ownership patterns of enterprises in all three countries will be examined. However, in this part ownership studies will bear aggregate character. This part aims to depict the main owners of the corporate sector.

According to the theoretical review, the whole corporate governance subject was founded on the concept of external financing and effective utilization of investment resources, when the financing of firm activities and control over its activities are functionally divided. From this point of view, studies of corporate finance are paramount in order to identify the scope of governance problems. Therefore, next step in the research sequence will be to depict the financial sources of the enterprises in each country. The main questions that should be answered are: (1) how do firms finance their investments and (2) to what extent the demand on external finance is satisfied.

As a next step socio-cultural, technological and political frameworks will be reviewed. The range of subject that may be included in this part of research is enormous (e.g. ethnological, religious, cultural, historical studies, etc.). Due to the limited size and time of the research all the aspects cannot be studied in a full range. On the other hand, too wide research perspective may result in significantly disperse conclusion and deviate from economical and legal analyses. That is why in order to encompass these important aspects, but at the same time not to deviate from the core analyses, contextual aspects will be introduced briefly with the reference to the already existing researches.[3]

Followed by analyses of economic environment, the legal aspects will be examined in a separate part (Part II). This part will encompass a descriptive research of three legal pillars of corporate governance – corporate law, securities law, and codes of good governance. The biggest chapter of this part will go through corporate law and be divided in sub-sections handling three main corporate governance conflicts: (1) managers vs. shareholders, (2) majority shareholders vs. minority shareholders, (3) shareholders vs. other constituencies (employees and creditors). According to the design of legal base the frameworks of corporate governance will be depicted. Namely, whom the laws grant the real control over corporate activities and how does it respond to main corporate governance problems. These analyses

[3] For example Buiter (2000), Dallago (2002), McCarthy and Puffer (2002).